



May 11, 2007

Ms. Elizabeth "E.R." Anderson
 Room 4836
 U.S. Department of Commerce
 Economics and Statistics Administration
 14th Street & Pennsylvania Avenue N.W.
 Washington, D.C. 20230

Dear Ms. Anderson:

I am writing in response to the Federal Register Notice (Vol. 72, No. 71) regarding Innovation Measurement. Thank you for the opportunity to comment on this important Commerce Department Initiative.

Although our comments are general in nature, they pertain most specifically to the second category in this posting, namely the identification of "indicators that could be used to quantify innovation and/or its impacts." In other words, we would like to comment on **what** gets measured.

As the distinguished committee members assess how to measure innovation in the 21st Century, we urge them to consider metrics for products, services, processes, business models etc that serve as pathways for businesses to achieve positive social and environmental change in communities as well as "for the purpose of creating new value for customers and financial returns for the firm."

This broader framing opens the way for measuring the prevalence of a variety of innovative management practices that link business success with wider social progress.

Let me offer a few examples of the kind of innovative practices to which I am referring.

Cross-sectoral collaborations: An increasing number of businesses are working across sectors to create value for themselves and for their communities. They are, in effect, becoming part of dynamic "megacommunities" where "participants remain interdependent because their common interest compels them to work together. . . ." ⁱ A case in point is the Harlem's Small Business Initiative which engaged businesses, community members, MBA students and other volunteers.

Stakeholder engagement strategies: Some businesses are also designing mechanisms for bringing diverse perspectives into their decision making. Building trust is one desired outcome; but companies also benefit by identifying new business opportunities, triggering early warning systems for business risks, and finding more efficient ways of operating. Several examples comes to mind: IBM used an open source "innovation jam" with 100,000 participants – clients, consultants, employees' family members - for an on-line brainstorming session about transportation, health, the environment and finance and commerce. ⁱⁱ In Iceland, Alcoa worked over an extended period with an advisory group of 30 stakeholders "in an effort to ensure Alcoa's new Fjardaál smelter and related hydroelectric project in Iceland are designed, constructed, and operated in a manner that strives to balance environmental, social, and economical aspects . . ." Together they developed sustainability objectives, indicators and metrics. ⁱⁱⁱ McDonald's uses "supplier councils" for quality assurance and safety. ^{iv}

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Rethinking markets: There are many businesses that are daring to imagine business opportunities in the space where financial, social or environmental objectives overlap. C.K. Prahalad gave vivid dimensions to such visions in his seminal work, *The Fortune at the Bottom of the Pyramid*. GE, through its ecomagination initiative, has redesigned its R&D function to look for breakthrough ideas with positive economic and ecological impacts. Vodafone actively studies the impact of its mobile phone business not only on its own revenue growth but also on economic growth, quality of life and social capital in the developing countries where it does business.

Developing leadership capacity: Leadership development experts who share our concern for developing leaders for a sustainable, global society conclude that new leadership models are needed as are innovative leadership development experiences.^v Vanguard companies, like PricewaterhouseCoopers, are redesigning their development programs to meet the challenge. PWC now offers a program called Ulysses for future leaders of the firm. Ulysses is a “learning journey that is helping to drive the personal transformation of our leaders to enable them to provide our people, our clients and ultimately the community with an experience that is based on shared values, understanding and collaboration and which is focused on delivering responsible and sustainable solutions.”^{vi}

Each of the examples above represents an innovative approach to achieving long-term value for firms **and** communities. They are distinctive responses to the challenge of managing businesses successfully in the midst of complex social and environmental dynamics. As categories of practice, they are often discussed. However, we know little about how widely these practices are being employed in business. It would be very helpful to have metrics that could measure their level of use. These measures could be an important first step in evaluating the impact these practices are having both on the long-term financial success of the corporations and on communities and the environment.

Sincerely,

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ⁱ Mark Gerencser, Fernando Napolitano, and Reginald Van Lee, “The Megacommunity Manifesto,” *strategy+business*, Issue 43, Summer 2006, p. 80-91.

ⁱⁱ “Big Blue Brainstorm,” *Business Week Online*, August 6, 2006.

ⁱⁱⁱ See Alcoa’s sustainability reports online at www.alcoa.com.

^{iv} See McDonald’s 2006 Worldwide Corporate Responsibility Report

^v Nancy McGaw, “Developing Leaders for a Sustainable Global Society,” *Strategic HR Review*, Volume 4, Issue 6, September/October 2005, p. 32-35

^{vi} Ulysses is described on the PWC website.